



# NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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## **TREASURER ANGELIDES WINS SCHOLARSHARE APPROVAL OF TOUGH, NEW MUTUAL FUND PROTECTION PRINCIPLES**

*Angelides Says ScholarShare Board's Action Today, Following Earlier CalSTRS and CalPERS Votes, Brings Mutual Fund Reforms a Step Closer to Setting Market Standard for Entire Mutual Fund Industry*

SACRAMENTO, CA – California's ScholarShare Investment Board, which administers the State's \$1 billion-plus college savings plan, today adopted Treasurer Phil Angelides' initiative to protect investors, pensioners and their families through a wide range of mutual fund reforms.

Angelides said the ScholarShare board's vote on the reforms – called the Mutual Fund Protection Principles – means the Principles are yet another step closer to becoming the market standard for the entire mutual fund industry. The ScholarShare Investment Board's action today follows votes in March by the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – the nation's first and third largest public pension funds – to approve the Treasurer's Mutual Fund Protection Principles.

In addition, the ScholarShare decision today comes three months after Angelides – joined in January by North Carolina Treasurer Richard Moore, New York State Comptroller Alan Hevesi and New York State Attorney General Eliot Spitzer – unveiled the Principles to help restore stability and integrity to a mutual fund industry rocked by recent reports of fraud, abusive trading practices and conflicts of interest.

Angelides said today's action signals another step toward his goal to use the "power of the purse" – the size and influence of the ScholarShare plan and the state pension funds as large customers in the mutual fund marketplace – to spur mutual funds to comply with the Principles. The Treasurer is chairman of the ScholarShare Investment Board and sits on the boards of both CalPERS and CalSTRS.

"The ScholarShare Investment Board vote today reiterates the strong message we want to send to the mutual fund industry: if you wish to do business with California, we expect you to adhere to the highest standards of financial disclosure and business practices," Angelides said. "We are committed to rooting out the bad actors and fraudulent practices that have shaken the mutual fund markets and harmed millions of families who have placed their savings in mutual funds."

Most of the funds invested through ScholarShare are invested in mutual funds, and ScholarShare currently invests exclusively in TIAA-CREF mutual funds. At its meeting today, the ScholarShare Investment Board directed TIAA-CREF to report back to the Board at its May meeting on its compliance with the newly approved Principles, and what steps if any TIAA-CREF plans to take to achieve compliance. The Board also voted to use the Principles as a consideration when determining whether it will do business with any other mutual fund companies.

The Treasurer's Mutual Fund Protection Principles adopted by the ScholarShare board call for a wide range of reforms to shareholder disclosure and reporting; mutual fund board structure; management and compensation reporting; and mutual fund disclosure of securities holdings, trading costs and "soft dollar" expenditures (see attached principles).

The Treasurer, in underscoring his commitment to mutual fund reform, pointed to last November, when he launched an ultimately successful effort to urge CalPERS and CalSTRS to terminate their combined \$1.5 billion relationships with Putnam Investments, a mutual fund company embroiled in controversy over its corporate practices. On November 17, CalPERS terminated its approximately \$1.2 billion contract with Putnam, and on December 4, CalSTRS terminated its \$357 million contract. CalPERS and CalSTRS have combined assets of more than \$283 billion.

In addition to the ScholarShare Investment Board, CalPERS and CalSTRS, Angelides has written a letter to Governor Arnold Schwarzenegger, urging the Schwarzenegger Administration to apply the Principles to the nearly \$5 billion in savings plan assets administered by the state Department of Personnel Administration. The Schwarzenegger Administration has not yet responded to the request.

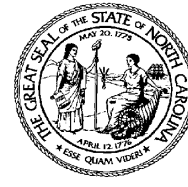
Attachment: Mutual Fund Protection Principles



***Comptroller of the  
State of New York***



***Treasurer of the  
State of California***



***Treasurer of the  
State of North Carolina***

## **Mutual Fund Protection Principles**

### **Shareholder Reforms**

**Billing:** Mutual fund shareholders shall receive at least annually a statement of the charges, expressed in dollars, debited from their account for management, 12b-1 and other distribution expenses, and other expenses.

**Fees:** The management fee schedule shall be reasonable and shall contain breakpoints that provide meaningful economies of scale to shareholders. In arriving at the fee schedule, the board of directors will conduct a comparative analysis using other funds, including fees charged to institutional accounts by the advisor. The mutual fund will furnish the board with an itemization of the expenditures associated with investment advisory services, marketing and advertising, operations and administration and general overhead, as well as the pre-tax profit.

- (i) Only the independent directors may vote to approve fees.
- (ii) The rationale and analysis supporting the fee schedule, including the various items of expense covered by the fee, will be published in the mutual fund's annual report.

### **Board Reform**

**Independence:** At least three-quarters of the mutual fund board and the chairman shall be independent directors and shall not have had any material business or employment relationships with the fund company, advisor or any service provider and shall not have had such a relationship for a period of five years prior to the appointment.

**Meetings & Resources:** The independent directors, or an appropriate subcommittee composed of independent directors will meet at least annually with the chief compliance officer of the fund and advisor, as well as the independent auditor without management present. The board shall hire its own staff or retain appropriate advisors.

### **Manager Reform**

**Compensation:** The mutual fund will disclose in the annual report, the compensation of the portfolio manager, as well as the methods and factors used to derive compensation. If a team manages the mutual fund, the compensation of the top three managers on the team and total compensation to the team will be disclosed.

**Ownership:** Each portfolio manager and the senior management of the advisor shall reveal in the annual report, the number of shares owned in the fund together with all purchases and sales in the fund for the 12-month prior period.

**Sale of funds:** A portfolio manager and any other research, marketing or senior executive of a mutual fund company or the advisor who purchases shares in one of its mutual funds will hold those shares, with the exception of money market funds, for at least 12 months.

### **Fund Disclosure**

**Holdings:** (i) A mutual fund will disclose its security holdings on a quarterly basis (with a maximum delay of 45-days). (ii) If a mutual fund company discloses any holdings, fundamental characteristics or other information to consultants, brokers, selected shareholders or other 3<sup>rd</sup> parties, the information shall be simultaneously posted on the fund's web-site or web-cast.

**Trading costs:** A mutual fund will disclose in its annual report information on the trading costs of the fund, including turnover, and a schedule of commissions paid to and shares traded with broker dealers.

**Soft dollars:** A mutual fund will disclose in its annual report, the amount of soft dollars paid by the fund, together with a schedule of the brokers utilized to execute the trades and a list of the soft dollar services purchased through the trades as well as the net credit or debit balance with each such broker.

**Professional Staff:** A mutual fund will disclose in its annual report all investment professionals, in addition to the portfolio manager, who are involved with the management of the mutual fund, any turnover among such personnel in the last 12 months, and all other products or mutual funds managed by the portfolio managers.

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